

Avista Corp.  
1411 East Mission P.O. Box 3727  
Spokane, Washington 99220-0500  
Telephone 509-489-0500  
Toll Free 800-727-9170



RECEIVED

2013 AUG 28 AM 9:01

IDAHO PUBLIC  
UTILITIES COMMISSION

August 27, 2013

State of Idaho  
Idaho Public Utilities Commission  
472 W. Washington St.  
Boise, ID 83702-5983

AVU-E-13-06

Attention: Ms. Jean Jewell, Secretary

**Re: Application of Avista Corporation for an Accounting Order Authorizing the Accounting Treatment of Costs Related to Improving Dissolved Oxygen Levels in Lake Spokane.**

Dear Ms. Jewell:

Enclosed for filing with the Commission are an original and seven (7) copies of the Application of Avista Corporation for an Accounting Order Authorizing the Accounting Treatment of Costs Related to Improving Dissolved Oxygen Levels in Lake Spokane.

Please direct any questions regarding this filing to Patrick Ehrbar at (509) 495-8620.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. J. Meyer", with a horizontal line extending to the right.

David J. Meyer  
Vice President and Chief Counsel for Regulatory  
and Governmental Affairs

Enclosures

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Application for an Accounting Order by mailing a copy thereof, postage prepaid, to the following:

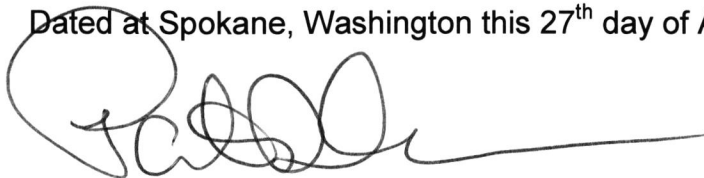
Ms Jean D Jewell, Secretary  
Idaho Public Utilities Commission  
472 W. Washington St.  
Boise, ID 83702-5983

Marv Lewallen  
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Boise, ID 83701  
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Larry A Crowley  
The Energy Strategies Institute Inc  
5549 S. Cliffsedge Ave  
Boise, ID 83716  
Email: [crowlyla@aol.com](mailto:crowlyla@aol.com)

Dated at Spokane, Washington this 27<sup>th</sup> day of August 2013.

A handwritten signature in black ink, appearing to read 'Patrick Ehrbar', with a long horizontal line extending to the right.

Patrick Ehrbar  
Manager, Rates & Tariffs

DAVID J. MEYER  
VICE PRESIDENT AND CHIEF COUNSEL FOR  
REGULATORY AND GOVERNMENTAL AFFAIRS  
AVISTA CORPORATION  
P.O. BOX 3727  
1411 EAST MISSION AVENUE  
SPOKANE, WASHINGTON 99220-3727  
TELEPHONE: (509) 495-4316  
[david.meyer@avistacorp.com](mailto:david.meyer@avistacorp.com)

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2013 AUG 28 AM 9:02

IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION OF )  
AVISTA CORPORATION, D/B/A AVISTA )  
UTILITIES FOR AN ACCOUNTING ORDER )  
AUTHORIZING ACCOUNTING TREATMENT )  
OF COSTS RELATED TO IMPROVING )  
DISSOLVED OXYGEN LEVELS IN LAKE )  
SPOKANE. )

CASE NO. AVU-E-13-06

APPLICATION OF AVISTA CORPORATION

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## I. INTRODUCTION

Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, pursuant to Section 61-524 Idaho Code and Rule 52 of the Idaho Public Utilities Commission ("Commission Rules of Procedure"), hereby applies Commission for an order authorizing the accounting treatment detailed in this Application related to costs the Company has incurred to model, analyze, and develop a plan to improve the dissolved oxygen levels in Lake Spokane<sup>1</sup>; activities that stemmed from the Company's Spokane River FERC license.

Avista is a utility that provides service to approximately 362,000 electric customers and 226,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 96,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

Pursuant to Commission Rule of Procedure 201, the Company requests that this filing be processed under the Commission's rules for Modified Procedure.

Communications in reference to this Application should be addressed to:

David J. Meyer, Esq.  
Vice President and Chief Counsel for  
Regulatory & Governmental Affairs  
Avista Corp.  
P. O. Box 3727  
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Telephone: (509) 495-4316  
Facsimile: (509) 495-8851  
E-mail: [david.meyer@avistacorp.com](mailto:david.meyer@avistacorp.com)

Kelly Norwood  
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State and Federal Regulation  
Avista Corp.  
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E-mail: [kelly.norwood@avistacorp.com](mailto:kelly.norwood@avistacorp.com)

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<sup>1</sup> Lake Spokane is a reservoir created by the Company's Long Lake Hydroelectric Project.

## II. SUMMARY OF APPLICATION

Avista requests Commission approval to defer for later possible recovery in rates \$469 thousand (Idaho's share of approximately \$1.34 million) in costs incurred related to meeting certain regulatory requirements to improve dissolved oxygen levels in Lake Spokane, the reservoir created by Avista's Long Lake Hydroelectric Development. As Avista was incurring these costs, to comply with the provisions of the Spokane River relicensing agreement, it was exploring multiple alternatives which could potentially provide for the same level of benefits to Lake Spokane as the more expensive capital project option.

In the final analysis, while Avista could have chosen to move forward with the more expensive capital project to address oxygen levels, the Company's additional efforts in evaluating alternatives resulted in the opportunity to choose a solution that is much less expensive for customers. Although the Company believes that the costs incurred that led to the ultimate decision to avoid the more expensive capital option were prudently incurred, the Company is not requesting a determination of prudence at this time.

Absent a Commission order allowing for the deferral of these costs, the Company would be forced to write-off these costs, resulting in a loss to the Company and its shareholders. Avista proposes to address the prudence and the timing of recovery of these costs in its next general rate case filing or other future proceeding, as appropriate. The purpose of this application is to request Commission approval of deferred accounting treatment to preserve these costs, so that the prudence and recovery of these costs can be addressed in a future proceeding.

### III. BACKGROUND

The Long Lake development is one of five Avista hydroelectric developments that are a part of Avista's Spokane River Project. The Spokane River Project consists of five hydroelectric developments between Coeur d'Alene Lake in Idaho and Long Lake Dam in Washington (Post Falls, Upper Falls, Monroe Street, Nine Mile and Long Lake). The Spokane River Project is the subject of Federal Energy Regulatory Commission ("FERC") Project License 2545, a 50-year license issued by FERC on June 18, 2009. Attached as Attachment A is a picture of the Spokane River Project. Lake Spokane is located in-between Nine Mile Dam upstream (to the east) and Long Lake Dam downstream (to the west).

Simultaneous to Avista's work on its Spokane River relicensing process (2002-2009), the Washington Department of Ecology ("Ecology") undertook a Dissolved Oxygen Total Maximum Daily Load ("TMDL") process to address impaired water quality in the Spokane River due to low dissolved oxygen levels. A TMDL is a requirement under the State of Washington's Clean Water Act obligations. One of the areas listed as "impaired" for low dissolved oxygen under the Clean Water Act includes Lake Spokane.

The TMDL, which is essentially a water quality cleanup plan, was a multi-year process that involved public and private entities that discharge wastewater into the Spokane River<sup>2</sup>, and many stakeholders, including Ecology, the United States Environmental Protection Agency ("EPA"), Washington Department of Fish and Wildlife, Idaho Department of Environmental Quality, Native American tribes and other parties. The TMDL

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<sup>2</sup> While Avista does not discharge into the Spokane River, Ecology, EPA, and others believe that the presence of the Long Lake Hydroelectric Facility increases the opportunity for algae growth. Algae absorbs oxygen when it decomposes.

1 process was ongoing when FERC issued the Project License in 2009 for the Spokane River  
2 Project.

3 The 2009 FERC Project License incorporated in its Appendix B the conditions of  
4 Washington State's Water Quality Section 401 Certification ("401 Certification") as  
5 mandatory conditions under the authority of the Clean Water Act, consistent with the Federal  
6 Power Act. Condition 5.6C relates to dissolved oxygen in Lake Spokane. The 401  
7 Certification and FERC License require Avista to develop a Water Quality Attainment Plan  
8 ("Attainment Plan") to "improve oxygen conditions in Lake Spokane....sufficient to address  
9 its proportional level of responsibility, based on its contribution to the dissolved oxygen  
10 problem in the Lake." Condition 5.6C requires that the Attainment Plan be implemented  
11 over a 10-year period, with the potential of "alternative action[s]" being required should the  
12 Plan's results be insufficient after the initial 10-year period.

13 At the time the 401 Certification and FERC License were issued, the TMDL process  
14 was still ongoing, so Condition 5.6C served essentially as a placeholder until such time as the  
15 TMDL was completed.

16 The TMDL process continued subsequent to the issuance of the FERC License for  
17 Avista's Spokane River projects. In the TMDL discussions and negotiations, many  
18 stakeholders, including Department of Ecology staff, sought to require Avista to oxygenate  
19 or aerate Lake Spokane as a means to address low dissolved oxygen levels. Avista, for its  
20 part, was actively engaged in the TMDL process both to ensure that the determination of  
21 Avista's proportionate responsibility for the impairment issue was not overstated, as well as  
22 to promote alternatives to the oxygenation or aeration capital project – alternatives that

1 would serve to provide for long-term benefits to the Spokane River and Lake Spokane at a  
2 lower cost to the Company and its customers.

3 In early 2012, Ecology issued the final TMDL. As the TMDL was now complete,  
4 Condition 5.6C of the Section 401 Certification was amended, as was the 2009 FERC  
5 license. The issuance of the TMDL and FERC License amendment also started Avista's  
6 timeline for developing and submitting the Attainment Plan to Ecology. Avista developed  
7 the Attainment Plan in consultation with Ecology and, after Ecology's approval, submitted it  
8 to FERC for approval in October 2012. FERC subsequently approved the Attainment Plan.

9 As was discussed earlier, Avista actively participated in the TMDL process. In the  
10 final TMDL, the methodology for how Avista should address the low dissolved oxygen  
11 levels in Lake Spokane was left open for exploration in the Attainment Plan (i.e, it was not  
12 prescriptive in how Avista must address the issue). One of the methodologies to address this  
13 problem was to aerate or oxygenate the Lake. Such a facility would have either used trucked  
14 in liquid oxygen or ambient air, bubbled or pressurized respectively, through an extensive  
15 distribution system installed through much of the 23-mile long lake. Avista had estimated  
16 this project could have cost up to \$8.0 million dollars to model, design and construct (not  
17 including additional property rights that may have been required), plus an additional \$200-  
18 300 thousand dollars per year in ongoing operations and maintenance, including liquid  
19 oxygen delivery and use.

20 Through extensive modeling efforts, and through ongoing negotiation over a period  
21 of several years through the TMDL process, Avista was able to avoid being ordered to  
22 construct such an aeration facility. As an alternative, Avista developed a 10-year  
23 implementation plan under which Avista is undertaking a number of smaller-scale efforts,



1 including such items as removing non-native carp, removing non-native aquatic vegetation,  
2 educating shoreline landowners on proper vegetation management, and a number of other  
3 elements.

4 Avista incurred approximately \$1.34 million in costs through December 2012 related  
5 to determining the best course of action to address the low dissolved oxygen levels in Lake  
6 Spokane. These costs primarily relate to: data gathering, analysis and computer modeling to  
7 create a sound scientific basis for the calculation of Avista's proportionate responsibility;  
8 review and technical analysis of agency modeling efforts and draft documents; legal and  
9 facilitation support to build consensus; and development of alternatives to oxygenation,  
10 including the scientific basis for "crediting" dissolved oxygen improvements to these  
11 alternatives. As summary of the expenditures is included in Table 1 below:

12 **Summary of Lake Spokane TMDL Project Costs**

13 Costs Incurred through December 31, 2012:

14 Professional Services	\$ 657,414
15 Legal Costs	\$ 383,824
16 Employee Costs, Contract Labor and Other	\$ 298,840
Total Costs Incurred	<u>\$ 1,340,077</u>
17 Washington's Share (65.01%)*	\$ 871,184
18 Idaho's Share (34.99%)*	<u>\$ 468,893</u>
	\$ 1,340,077

19 \*Allocations based on 12/31/2012 Production/Transmission Ratio

20 Avista recorded these costs in "Construction Work in Progress", which would have  
21 been capitalized upon completion of the aeration project based on the original expectation  
22 that Avista would be required to construct a facility to add oxygen to the Lake.

1           However, Avista was able to successfully address stakeholders issues related to the  
2 low dissolved oxygen levels through the smaller scale efforts noted above. While the  
3 estimated cost of the larger capital project could have been as high as \$8.0 million, with  
4 \$200-\$300 thousand ongoing annual O&M costs, it is our belief that the small scale efforts  
5 will only cost approximately \$100 - \$150 thousand per year, and that the Company may be  
6 able to integrate these efforts with other plans required under our FERC license.

#### 7 8                                   **IV. PROPOSED ACCOUNTING TREATMENT**

9           In this filing, the Company is requesting an order allowing for the deferral of \$469  
10 thousand (Idaho's share of approximately \$1.34 million) related to the Lake Spokane TMDL  
11 process and Attainment Plan. Avista will address the prudence and recovery of these costs in  
12 its next general rate case filing or other future proceeding, as appropriate. Absent a  
13 Commission order allowing for the deferral of these costs, the Company, having foregone the  
14 construction of the oxygenation facility, would be forced to write-off these costs, resulting in  
15 a loss to the Company and its shareholders.

16           The Company requests to defer the TMDL costs in Account 182.3 – Other Regulatory  
17 Assets. Upon approval, the Company will transfer the costs from Account 107.0 –  
18 Construction Work in Progress to Account 182.3. A summary of the accounting entry  
19 follows:

<u><b>FERC Account</b></u>	<u><b>Account Description</b></u>	<u><b>Debit</b></u>	<u><b>Credit</b></u>
182.3	Other Regulatory Assets (Washington)	\$ 871,184	
182.3	Other Regulatory Assets (Idaho)	\$ 468,893	
107.0	Construction Work in Progress		\$ 1,340,077

1 The Company does not seek to accrue interest on the Idaho share of the deferrals.


2  
3 **V. REQUEST FOR RELIEF**

4 WHEREFORE, Avista respectfully requests that the Commission issue an Order  
5 approving the deferred accounting treatment proposed above. Avista will address the  
6 prudence and recovery of these costs in its next general rate case filing or other future  
7 proceeding, as appropriate.

8 The Company requests that the matter be processed under the Commission's  
9 Modified Procedure rules through the use of written comments.

10 DATED at Spokane, Washington, this 27<sup>th</sup> day of August, 2013.

11  
12 AVISTA CORPORATION

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14  
15 By   
16 David J. Meyer

17 Vice President and Chief Counsel for  
18 Regulatory and Governmental Affairs

STATE OF WASHINGTON )

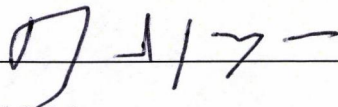
: ss

County of Spokane )

David J. Meyer, being duly sworn, on oath deposes and says:

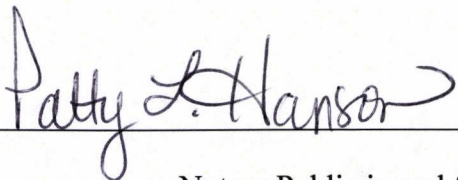
That he is the Vice President and Chief Counsel for Regulatory and Governmental Affairs of Avista Corporation;

That he has read the foregoing Application, knows the contents thereof, and believes the same to be true.



David J. Meyer

Subscribed and sworn to before me this 27<sup>th</sup> day of August, 2013.



Notary Public in and for the State  
Washington, residing in Spokane



BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. AVU-E-13-\_\_\_\_

APPLICATION OF AVISTA CORPORATION

ATTACHMENT A



Attachment A – Spokane River Project

